

ORIGINAL



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BEFORE THE ARIZONA CORPORATION

30NE

COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
UTILITY SOURCE, L.L.C. FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PROPERTY AND  
FOR AN INCREASE IN ITS WATER AND  
WASTEWATER RATES AND CHARGES FOR  
UTILITY SERVICES.

DOCKET NO. WS-04235A-06-0303

**NOTICE OF FILING  
REVISED SURREBUTTAL TESTIMONY**

On March 19, 2007, Staff of the Arizona Corporation Commission ("Staff") filed its surrebuttal testimony for this proceeding. Staff inadvertently included incorrect schedules in the portion dealing with the wastewater division of Utility Source LLC ("Company"). Conforming changes to numbers provided in the testimony to reflect the corrected schedule information have also been made in the testimony dealing with the Company's wastewater division.

RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of March, 2007.

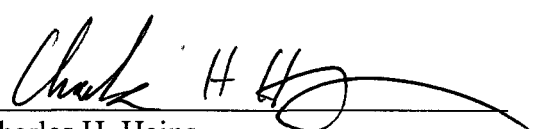
Arizona Corporation Commission

DOCKETED

MAR 21 2007

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Phoenix, Arizona 85007

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24  
25  
26  
27  
28  


**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

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UTILITY SOURCE, L.L.C. FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
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\_\_\_\_\_ )

DOCKET NO. WS-04235A-06-0303

REVISED SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 22, 2007

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## **REVISED SURREBUTTAL SCHEDULES**

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**EXECUTIVE SUMMARY**  
**UTILITY SOURCE, LLC-WASTEWATER**  
**DOCKET NO. WS-04235A-06-0303**

Upon review of its surrebuttal testimony submitted to Docket Control on Monday, March 19<sup>th</sup>, 2007, Staff noted two errors. The first was that the incorrect surrebuttal schedules were included. The second error was that one of Staff's adjustments described in the surrebuttal testimony was not reflected in the surrebuttal schedule. Therefore, Staff is submitting its revised surrebuttal testimony and schedules.

Staff's revised surrebuttal testimony recommends revised rates that would increase operating revenues by \$121,549 to produce operating revenues of \$235,454 resulting in operating income of \$113,905, or a 106.71 percent increase over test year revenues of \$113,905. Staff also recommends a revised FVRB of \$1,113,582.

Revenue Requirement

Staff recommends its revenue requirement, revenue increase, and percentage of revenue increase.

Rate Base

Staff responds to the Company's adjustment to accumulated amortization of contributions in aid of construction ("CIAC"), and further comments on why some of the plant in service items should still be disallowed.

Income Statement

Staff responds to the Company's unfounded and incorrect assertions regarding why Staff originally accepted the Company's proposal.

Rate Design

Staff explains the new rate design and the effects it will have on wastewater customers.

**INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Jeffrey M. Michlik who filed direct testimony in this case?**

A. Yes, I am.

**Q. Why is Staff submitting revised surrebuttal testimony?**

A. Upon review of its surrebuttal testimony submitted to Docket Control on Monday, March 19<sup>th</sup>, 2007, Staff noted two errors. The first was that the incorrect surrebuttal schedules were included. The second error was that one of Staff's adjustments described in the surrebuttal testimony was not reflected in the surrebuttal schedule. Therefore, Staff is submitting its revised surrebuttal testimony and schedules.

**Q. What is the purpose of your revised surrebuttal testimony in this proceeding?**

A. The purpose of my revised surrebuttal testimony in this proceeding is to provide Staff's response to the rebuttal testimony of Utility Source, LLC ("Company") witness, Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, operating revenues and expenses, and rate design.

**Q. Please explain how Staff's revised surrebuttal testimony is organized.**

A. Staff's revised surrebuttal testimony is generally organized to present issues in the same sequence as presented in Mr. Bourassa's rebuttal testimony.

**Q. Does Staff's lack of response to a particular issue mean it is accepting the Company's position on that issue?**

A. No. Staff's lack of response to any issue in this surrebuttal testimony should not be construed as agreement with the Company's rebuttal testimony; rather, where there is no response, Staff relies on its original direct testimony.

**RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY**

**Revenue Requirement**

**Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue requirement?**

**A. Yes.**

**Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.**

**A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:**

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Company-Direct	\$301,124	\$187,220	164.37 percent
Staff-Direct	\$224,908	\$111,003	97.45 percent
Company-Rebuttal	\$283,384	\$169,479	148.79 percent
Staff-Revised Surrebuttal	\$235,454	\$121,549	106.71 percent

**Q. Why is the Company's revenue requirement and proposed increase higher than Staff's?**

**A. As Mr. Bourassa suggests, the differences in revenue requirement are primarily a result of the differences in rate base, cost of capital, and depreciation expense; with the balance being attributed to the level of property taxes. See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RT") at 2.**

**Q. Does the Company still propose to include pro forma revenues from future customer growth in the determination of the revenue requirement and rate increase for the sewer division?**

**A. Yes, See Bourassa RT at 2.**

**Q. Is Staff still willing to accept the Company's proposal to include future growth of 350 customers in the sewer division?**

1 A. Yes.

2  
3 **Rate Base**

4 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate base?**

5 A. Yes.

6  
7 **Q. Would you please identify each party's respective rate base recommendations?**

8 A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

9

	<u>OCRB</u>	<u>FVRB</u>
10 Company-Direct	\$1,401,953	\$1,401,953
11 Staff-Direct	\$989,576	\$989,576
12 Company-Rebuttal	\$1,314,093	\$1,314,093
13 Staff-Revised Surrebuttal	\$1,113,582	\$1,113,582

14

15 **Q. Are there any adjustments to plant in service that were overlooked by Staff in direct**  
16 **testimony?**

17 A. Yes, Account 380 – Treatment and Disposal Equipment was valued at \$1,106,874 in the  
18 original application and, per examination of the general ledger, was broken out as follows:

19

<u>Memo</u>	<u>Amount</u>
21 Treatment Plant #1	\$ 333,500
22 Treatment Plant #2	\$ 546,704
23 Evaporative Lagoons	\$ 161,000
24 Power to Site	\$ 16,100
25 WWTP	\$ 3,750
26 <u>WWTP</u>	<u>\$ 45,819</u>
27 Total	\$1,106,874

28

29 In response to Staff data request JCB 3.18 regarding Account #380 Treatment and  
30 Disposal Equipment, Treatment Plant #2, and JCB 3.19 regarding Account #380  
31 Treatment and Disposal Equipment – Evaporative Lagoons, the Company states that there



1 were mistakes in both sub accounts as one was understated and the other overstated. In  
2 the case of Treatment Plant # 2 the Company stated that the original amount of \$546,704  
3 was incorrect and the total treatment cost for Treatment Plant #2 should be \$463,011 a  
4 decrease of \$83,693. In the case of the Evaporative Lagoons the Company stated that the  
5 original amount of \$161,000 was understated and the total evaporative lagoons cost should  
6 be \$220,586, an increase of \$59,586. The net effect of the overstatement of the costs for  
7 Treatment Plant # 2 in the amount of \$83,693 and the understatement of the costs for the  
8 evaporative lagoons in the amount of \$59,586 nets to a decrease of \$24,107 (i.e., 83,693-  
9 59,586). This adjustment is reflected at line 3 of Staff Revised Surrebuttal Schedule  
10 JMM-WW4.

11  
12 **Q. Are there any other adjustments that you would like to make changes to in Staff's**  
13 **direct testimony?**

14 A. Yes, due to a typographical error, the amount which Staff disallowed in the direct  
15 testimony for account 380 treatment and disposal Equipment for Evaporative lagoons was  
16 \$178,231, but should have been \$178,703. This adjustment is reflected at line 4 of Staff  
17 Revised Surrebuttal Schedule JMM-WW4.

18  
19 **Q. Mr. Bourassa states that \$68,271 in costs related to wastewater treatment should be**  
20 **included in plant in service. See Bourassa RT at 4. Has the Company provided**  
21 **additional information to Staff to support its claim?**

22 A. Yes, per examination of the rebuttal testimony, contract, and additional information  
23 provided by the Company, Staff has determined that this amount should be included in  
24 wastewater treatment plant # 1, and has removed its adjustment of it in Staff Revised  
25 Surrebuttal Schedule JMM-WW4.

26  
27 **Q. Mr. Bourassa states that \$178,231 (which is now \$178,703) of costs related to**  
28 **evaporative lagoons consisting of water falls, streams, pond is an integral component**  
29 **of the wastewater treatment system. See Bourassa RT at 5. Does Staff agree?**

1 A. No, per examination of the Arizona Department of Environmental Quality Aquifer  
2 Protection Permit ("APP") # 104083, Flagstaff Meadows Wastewater Treatment Plant  
3 ("WWTP"). Under the Facility Description:

4  
5 "The WWTP process will consist of an influent lift station, headwork with bars screens,  
6 an equalization basin, anoxic and aeration tanks for nitrification-denitrification, secondary  
7 clarifiers, filters, a chlorine disinfection contact tank, dechlorination, a sludge holding  
8 tank, sludge belt press thickeners, and effluent pump station, and a clay lined effluent  
9 holding pond. The effluent generated is discharged into an unnamed tributary to  
10 Volunteer Wash as regulated by the Arizona Discharge Elimination System permit  
11 AZ0024708 and/or by reuse under a valid reuse permit."

12  
13 There is no mention of a lake with a fountain, waterfalls, streambeds or other additional  
14 pond within the Company's APP.

15  
16 **Q. What is Staff's understanding of an APP?**

17 A. It is Staff's understanding that the APP serves as a blue print as to what the Company is  
18 allowed to construct.

19  
20 **Q. So Staff would agree after reading the Company's APP, that the Company is allowed  
21 to construct a clay lined effluent holding pond?**

22 A. Yes.

23  
24 **Q. In Staff data request 5.3, did Staff specifically ask the Company why the lake,  
25 waterfalls, streambeds and other pond were not mentioned in the APP?**

26 A. Yes.

27  
28 **Q. What was the Company's response?**

29 A. The Company responded that "the lake, water fall, stream and pond and all water features,  
30 are lined and part of the APP facilities.

1 **Q. What is Staff's position?**

2 A. Staff does not agree. Staff, as stated earlier, believes the Company is allowed to construct  
3 a clay lined effluent holding pond, and that any additional, decorative features beyond that  
4 are at the Company's discretion and not required by ADEQ.

5  
6 **Q. Please comment on Mr. Bourassa's statement that effluent used for the purpose of  
7 turf irrigation is beneficial to the Company? See Bourassa RT at 9.**

8 A. Staff agrees with the Company's statement that the use of effluent for turf irrigation is  
9 beneficial. However, that is not at issue, what is at issue is whether the rate payers should  
10 pickup the costs of these additional water features that were not included in the APP.

11  
12 **Q. Was the Company able to respond to Staff's data request 5.2 which asked for a  
13 breakout of significant items included in the wastewater aeration system such as the  
14 lake, waterfalls, streambeds and pond?**

15 A. No, Staff e-mailed a copy of an invoice in the amount of \$178,703 from Red Rock  
16 Contractors which contained the Flagstaff Meadows Water Feature Project Overview, and  
17 asked the Company to breakout these costs. The Company responded that it was unable to  
18 breakout these costs.

19  
20 **Q. Does Staff know if the pond mentioned in the APP is included in this invoice?**

21 A. No, the invoice does not mention the upper pond, and the Company was unable to  
22 breakout the pond costs for Staff. Therefore, Staff, as in its direct testimony, believes the  
23 water features are not a necessary component of the utility system, but contribute to a  
24 park-like setting for the general development which has already profited the owners  
25 through the sale of homes in the Flagstaff Meadows development project, and these costs  
26 should be disallowed.

27  
28 **Q. Are there also power costs involved to pump water from the holding pond to the  
29 lake, and other costs related to operating the lake fountain?**

1 A. Yes, however at this point Staff is unable to breakout these costs, but recommends that the  
2 Company be required to separate these costs in its next rate application so that these  
3 expenses can be independently analyzed.  
4

5 **Q. Mr. Bourassa states that Staff disallowed \$99,272 of costs related to wastewater**  
6 **treatment plant #2, but should have included this amount as there is other sufficient**  
7 **supporting documentation to substantiate the costs. See Bourassa RT at 5. Does**  
8 **Staff accept this number?**

9 A. No, as mentioned earlier in response to Staff data request 2.1, the Company supplied Staff  
10 with a detailed schedule of account balances in which the Company stated that account  
11 380 Treatment and Disposal Equipment Treatment Plant # 2 was valued at \$546,704.  
12 However, per examination of the Company's response to Staff data request number 3.18,  
13 in which Staff asked for a detailed line item schedule of all costs incurred from Santec for  
14 Treatment Plant # 2, the Company presented Staff with a different amount. The Company  
15 stated that: "Our review of these costs, contract billings and change order billings found  
16 the following Santec invoices to be applicable to the costs for account # 380 Treatment  
17 and Disposal Equipment, Treatment Plant # 2." The revised cost presented by the  
18 Company for Treatment Plant # 2 is \$463,011, a shortfall of \$83,693. Therefore, this  
19 lends credence to Staff's adjustment as there is not other sufficient supporting  
20 documentation to substantiate these costs (\$83,693) due to the Company's own admission  
21 that it does not exist. Therefore, Staff is only making a \$13,579 adjustment (i.e.,  
22 \$463,011-\$449,432 the number of cancelled checks) for unsubstantiated documentation.  
23 This adjustment is reflected at line 4 of Staff Revised Surrebuttal Schedule JMM-WW4.  
24

1 **Q. Mr. Bourassa states that accumulated amortization of CIAC should be increased to**  
2 **reflect 2 years of amortization. See Bourassa RT at 6. Does Staff accept this?**

3 A. Yes. However, the amount will differ due to Staff's CIAC amortization rate which is  
4 calculated from the plant in service depreciation composite rate. Staff's adjustment  
5 increases accumulated amortization by \$4,142, from \$8,283 to \$12,425 as the associated  
6 accumulated amortization should include 2 years of amortization (using a ½ year  
7 convention) starting in 2004. This adjustment is shown on Revised Surrebuttal Schedule  
8 JMM-WW6.

9  
10 **Income Statement**

11 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding the income**  
12 **statement?**

13 A. Yes.

14  
15 **Q. Please comment on Mr. Bourassa's statement that Staff's acceptance of the**  
16 **Company's direct proposal to include the 350 projected customers is justified in**  
17 **order to further penalize the Company? See Bourassa RT at 9.**

18 A. This statement is unfounded and incorrect. If you read through its direct testimony  
19 submitted, Staff specifically states throughout its testimony that it has accepted the  
20 **Company's proposal in an effort to alleviate the rate burden on customers**, as shown  
21 below:

22  
23 "Staff, in an *effort to alleviate the rate burden on customers*, has accepted the  
24 **Company's proposal** and will include estimated usage of 350 homes that are currently  
25 being built, in the rate design" See Direct Testimony of Jeffrey M. Michlik ("Michlik  
26 DT") in the Executive Summary.

27 "Why is Staff accepting these projected numbers? The numbers submitted by the  
28 Company are known projects currently under development and assume that the homes will  
29 be built. The **Company has provided these numbers in an effort to minimize the**  
30 **impact on the rates** and is not intended to set any precedent for this or any other utility  
31 regulated by the Commission." See Michlik DT at 11.

1  
2        "In an effort to lessen the rate impact on customers, **the Company in its rate application**  
3        **proposed including 350 homes that are currently being built.** Staff accepted the  
4        Company's proposal and has included these 350 customers in the rate design *in order to*  
5        *ameliorate the rate shock that current and future customers will experience."* See Michlik  
6        DT at 17.

7  
8        **Rate Design**

9        **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding Rate Design?**

10       A. Yes.

11  
12       **Q. Has Staff's rate design changed as a result of the Company's rebuttal testimony?**

13       A. Yes, Staff has provided a revised rate design. See Staff Revised Surrebuttal Schedule  
14       JMM-WW11.

15       **Q. What is the rate impact on a  $\frac{3}{4}$ -inch meter residential customer using a median**  
16       **consumption of 4,500 gallons?**

17       A. The median usage of residential  $\frac{3}{4}$ -inch meter customers is 4,500 gallons per month. The  
18        $\frac{3}{4}$ -inch meter residential customer would experience \$18.54 or 150.92 percent increase in  
19       their monthly bill from \$12.29 to \$30.83 under the Company's proposed rates and a  
20       \$14.00 or 114.00 percent increase in their monthly bill from \$12.29 to \$26.29 under  
21       Staff's recommended rates. See Staff Revised Surrebuttal Schedule JMM-WW12.

22  
23       **Q. Does this conclude your surrebuttal testimony?**

24       A. Yes, it does.

UTILITY SOURCE, LLC. - Wastewater Division  
Docket No. WS-04235A-06-0303  
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW1

**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL ORIGINAL COST	(B) COMPANY REBUTTAL FAIR VALUE	(C) STAFF SURREBUTTAL ORIGINAL COST	(D) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	\$ 1,314,093	\$ 1,314,093	\$ 1,113,582	\$ 1,113,582
2	Adjusted Operating Income (Loss)	\$ (31,551)	\$ (31,551)	\$ (22,441)	\$ (22,441)
3	Current Rate of Return (L2 / L1)	-2.40%	-2.40%	-2.02%	-2.02%
4	Required Rate of Return	10.50%	10.50%	8.90%	8.90%
5	Required Operating Income (L4 * L1)	\$ 137,980	\$ 137,980	\$ 99,109	\$ 99,109
6	Operating Income Deficiency (L5 - L2)	\$ 169,531	\$ 169,479	\$ 121,549	\$ 121,549
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 169,479	\$ 169,479	\$ 121,549	\$ 121,549
9	Adjusted Test Year Revenue	\$ 113,905	\$ 113,905	\$ 113,905	\$ 113,905
10	Proposed Annual Revenue (L8 + L9)	\$ 283,384	\$ 283,384	\$ 235,454	\$ 235,454
11	Required Increase in Revenue (%)	148.79%	148.79%	106.71%	106.71%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	8.90%	8.90%

References:

Column (A): Company Rebuttal Schedule B-1  
Column (B): Company Rebuttal Schedule B-1  
Column (C): Staff Revised Surrebuttal Schedules JMM-WW2, JMM-WW7  
Column (D): Staff Revised Surrebuttal Schedules JMM-WW2, JMM-WW7

UTILITY SOURCE, LLC. - Wastewater Division  
Docket No. WS-04235A-06-0303  
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW2

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY REBUTTAL AS FILED	(B) STAFF SURREBUTTAL ADJUSTMENTS	REF	(C) STAFF SURREBUTTAL AS ADJUSTED
1	Plant in Service	\$ 1,595,481		
2	Less: Accumulated Depreciation	96,191		
3	Net Plant in Service	<u>\$ 1,499,290</u>		
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 197,973		\$ 197,973
5	Less: Accumulated Amortization	12,777		
6	Net CIAC	<u>185,196</u>		<u>185,548</u>
7	Advances in Aid of Construction (AIAC)	-		-
8	Customer Deposits	-		-
9	Deferred Income Tax Credits	-		-
	<u>ADD:</u>			
10	Unamortized Finance Charges	-		-
11	Deferred Tax Assets	-		-
12	Working Capital	-		-
13	<b>Original Cost Rate Base</b>	<u>\$ 1,314,094</u>		<u>\$ 1,113,582</u>

References:

Column (A), Company Rebuttal Schedule B-1  
Column (B): Revised Surrebuttal Schedule JMM-WW3  
Column (C): Column (A) + Column (B)



SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY REBUTAL AS FILED	(B) STAFF PLANT IN SERVICE ADJ. NO. 1	(C) STAFF SURREBUTAL ACCUM DEPREC ADJ. NO. 2	(D) STAFF SURREBUTAL AIAC TO CIAC ADJ. NO. 3	(E) STAFF SURREBUTAL ADJUSTED
1		PLANT IN SERVICE:					
2	351	Organization	\$ -	\$ -	\$ -	\$ -	\$ -
3	352	Franchises	-	-	-	-	-
4	353	Land and Land Rights	105,000	-	-	-	105,000
5	354	Structures & Improvements	56,350	-	-	-	56,350
6	355	Power Generation Equipment	2,879	-	-	-	2,879
7	360	Collection Sewers - Force	-	-	-	-	-
8	361	Collection Sewers - Gravity	280,553	-	-	-	280,553
9	362	Special Collecting Structures	-	-	-	-	-
10	363	Services to Customers	60,375	-	-	-	60,375
11	364	Flow Measuring Devices	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	-	-	-	3,450
13	370	Receiving Wells	-	-	-	-	-
14	371	Pumping Equipment	-	-	-	-	-
15	380	Treatment and Disposal Equipment	1,106,874	(216,389)	-	-	890,485
16	381	Plant Sewers	-	-	-	-	-
17	382	Outfall Sewer Lines	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-	-
19	390	Office Furniture & Equipment	-	-	-	-	-
20	391	Transportation Equipment	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	-	-	-	-
22	394	Laboratory Equipment	-	-	-	-	-
23	395	Power Operated Equipment	-	-	-	-	-
24	398	Other Tangible Plant	-	-	-	-	-
25			1,595,481	(216,389)	-	-	1,379,092
26			-	-	-	-	-
27	Add:		-	-	-	-	-
28			-	-	-	-	-
29			-	-	-	-	-
30			-	-	-	-	-
31	Less:		-	-	-	-	-
32			-	-	-	-	-
33			-	-	-	-	-
34			-	-	-	-	-
35	Total Plant in Service		\$ 1,595,481	\$ (216,389)	\$ -	\$ -	\$ 1,379,092
36	Less: Accumulated Depreciation		96,191	-	(16,229)	-	79,962
37			\$ -	\$ -	\$ -	\$ -	\$ -
38	Net Plant in Service (L59 - L 60)		\$ 1,499,290	\$ (216,389)	\$ 16,229	\$ -	\$ 1,299,130
39			-	-	-	-	-
40	LESS:		-	-	-	-	-
41	Contributions in Aid of Construction (CIAC)		-	-	-	-	-
42	Less: Accumulated Amortization		12,777	-	-	(352)	197,973
43	Net CIAC (L25 - L26)		185,196	-	-	-	12,425
44	Advances in Aid of Construction (AIAC)		-	-	-	-	185,196
45	Customer Meter Deposits		-	-	-	-	-
46	Deferred Income Tax Credits		-	-	-	-	-
47			-	-	-	-	-
48	ADD:		-	-	-	-	-
49	Unamortized Finance Charges		-	-	-	-	-
50	Deferred Tax Assets		-	-	-	-	-
51	Working Capital		-	-	-	-	-
52			-	-	-	-	-
53	Original Cost Rate Base		\$ 1,314,094	\$ (216,389)	\$ 16,229	\$ -	\$ 1,113,934

ADJ. #	Plant in Service Accumulated Depreciation AIAC Reclamation to CIAC	References:
1		Revised Surrebuttal Schedule JMM-WW4
2		Revised Surrebuttal Schedule JMM-WW5
3		Revised Surrebuttal Schedule JMM-WW6

Utility Source, LLC. - Wastewater Division  
Docket No. WS-04235A-06-0303  
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW4

**RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Treatment and Disposal Equipment (Account 380)	1,106,874	(216,389)	890,485
2	Totals	<u>\$ 1,106,874</u>	<u>\$ (216,389)</u>	<u>\$ 890,485</u>
<u>Staff's Calculation of Treatment and Disposal Equipment (Account 380)</u>				
3	Adjustments for the Company's overstatement and understatement of sub accounts	\$ (24,107)		
4	Removal of manmade water falls, streams, ponds and lakes	(178,703)		
5	Unsubstantiated costs of \$13,579 relating to Treatment Plant No. 2	(13,579)		
6	Total	<u>\$ (216,389)</u>		

References:

Column A: Company Rebuttal Schedule B-1, Page 1

Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] [B] [C]		
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 96,191	\$ (16,229)	\$ 79,962

ACCT	NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES			A D	ADDITIONS	RETIREMENTS	PLT BAL	DEP EXP	A D
			Total Plant	Staff	Adjusted						
			12/31/2004			12/31/2004	12/31/2005	12/31/2005	12/31/2005	12/31/2005	12/31/2005
2	351	Organization	-	-	-	-	-	-	-	-	-
3	352	Franchises	-	-	-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	-	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	-	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	-	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	-	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	-	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	-	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	-	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	-	-	-	-	-	-	-	-
15	380	Treatment and Disposal Equipment	890,485	-	22,262	22,262	-	-	890,485	44,524	66,786
16	381	Plant Sewers	-	-	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	-	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	-	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	-	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	-	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	-	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	-	-	-	-	-	-	-	-
25			-	-	-	-	-	-	-	-	-
26			1,379,092	-	26,654	26,654	-	-	1,379,092	53,308	79,962

Composite Rate: 4.1840%

Depreciable Plant: 1,274,092

References:

Column A: Company Rebuttal Schedule B-1, Page 1  
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3  
Column C: Column [A] + Column [B]

Utility Source, LLC. - Wastewater Division  
Docket No. WS-04235A-06-0303  
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW6

**RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumated Amortization of CIAC	\$ 12,777	\$ (352)	\$ 12,425

Staff's amortization of CIAC

3	Amortization of CIAC:	\$ 197,973
4	Composite amortization rate (see JMM-WW5):	4.1840%
5	Amortized CIAC:	\$ 8,283
	Plus prior year amortization (using 1/2 year convention)	\$ 4,142
6	Accumulated Amortization of CIAC	\$ 12,425

References:

Column A: Company Rebuttal Schedule B-1, Page 1

Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3

Column C: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL TEST YEAR AS FILED	[B] STAFF SURREBUTTAL TEST YEAR ADJUSTMENTS	[C] STAFF SURREBUTTAL TEST YEAR AS ADJUSTED	[D] STAFF SURREBUTTAL PROPOSED CHANGES	[E] STAFF SURREBUTTAL RECOMMENDED
1	<b>REVENUES:</b>					
2	Flat Rate and Metered Revenues	\$ 112,248	\$ -	\$ 112,248	\$ 121,549	\$ 233,797
3	Misc. Service Revenues	-	-	-	-	-
4	Other Wastewater Revenues	1,657	-	1,657	-	1,657
5	<b>Total Operating Revenues</b>	<u>\$ 113,905</u>	<u>\$ -</u>	<u>\$ 113,905</u>	<u>\$ 121,549</u>	<u>\$ 235,454</u>
	<b>OPERATING EXPENSES:</b>					
6	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
7	Purchased Wastewater Treatment	-	-	-	-	-
8	Sludge Removal Expense	-	-	-	-	-
9	Purchased Power	17,423	-	17,423	-	17,423
10	Fuel for Power Production	-	-	-	-	-
11	Chemicals	3,945	-	3,945	-	3,945
12	Materials and Supplies	4,793	-	4,793	-	4,793
13	Contractual Services- Professional	1,195	-	1,195	-	1,195
14	Contractual Services- Testing	24,902	-	24,902	-	24,902
15	Contractual Services- Other	15,000	-	15,000	-	15,000
16	Repairs and Maintenance	-	-	-	-	-
17	Waste Water Testing Expense	-	-	-	-	-
18	Rents	-	-	-	-	-
19	Transportation Expenses	-	-	-	-	-
20	Insurance	-	-	-	-	-
21	Regulatory Commission Expense - Rate Case	12,500	-	12,500	-	12,500
22	Miscellaneous Expense	4,965	-	4,965	-	4,965
23	Depreciation Expense	55,610	(10,585) ADJ #1	45,025	-	45,025
24	Taxes Other Than Income	-	-	-	-	-
25	Property Taxes	5,123	1,475 ADJ #2	6,598	-	6,598
26	Income Tax	-	-	-	-	-
27						
28	<b>Total Operating Expenses</b>	<u>\$ 145,456</u>	<u>\$ (9,110)</u>	<u>\$ 136,346</u>	<u>\$ -</u>	<u>\$ 136,346</u>
29	<b>Operating Income (Loss)</b>	<u>\$ (31,551)</u>	<u>\$ 9,110</u>	<u>\$ (22,441)</u>	<u>\$ 121,549</u>	<u>\$ 99,109</u>

References:

Column (A): Company Rebuttal Schedule C-1  
Column (B): Revised Surrebuttal Schedule JMM-WW8  
Column (C): Column (A) + Column (B)  
Column (D): Revised Surrebuttal Schedule JMM-WW1  
Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR**

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL ADJ #1 Depreciation Exp	[C] STAFF SURREBUTTAL ADJ #2 Property Tax	[D] STAFF SURREBUTTAL ADJUSTED
1	<b>REVENUES:</b>				
2	Flat Rate and Metered Revenues	112,248	-	-	112,248
3	Misc. Service Revenues	-	-	-	-
4	Other Wastewater Revenues	1,657	-	-	1,657
5	<b>Total Operating Revenues</b>	<u>113,905</u>	<u>-</u>	<u>-</u>	<u>113,905</u>
6	<b>OPERATING EXPENSES:</b>				
7	Salaries and Wages	-	-	-	-
8	Purchased Wastewater Treatment	-	-	-	-
9	Sludge Removal Expense	-	-	-	-
10	Purchased Power	17,423	-	-	17,423
11	Fuel for Power Production	-	-	-	-
12	Chemicals	3,945	-	-	3,945
13	Materials and Supplies	4,793	-	-	4,793
14	Contractual Services- Professional	1,195	-	-	1,195
15	Contractual Services- Testing	24,902	-	-	24,902
16	Contractual Services- Other	15,000	-	-	15,000
17	Repairs and Maintenance	-	-	-	-
18	Waste Water Testing Expense	-	-	-	-
19	Rents	-	-	-	-
20	Transportation Expenses	-	-	-	-
21	Insurance	-	-	-	-
22	Regulatory Commission Expense - Rate Case	12,500	-	-	12,500
23	Miscellaneous Expense	4,965	-	-	4,965
24	Depreciation Expense	55,610	(10,585)	-	45,025
25	Taxes Other Than Income	-	-	-	-
26	Property Taxes	5,123	-	1,475	6,598
27	Income Tax	-	-	-	-
28	<b>Total Operating Expenses</b>	<u>145,456</u>	<u>(10,585)</u>	<u>1,475</u>	<u>134,871</u>
29	<b>Operating Income (Loss)</b>	<u>(31,551)</u>	<u>10,585</u>	<u>(1,475)</u>	<u>(20,966)</u>

ADJ #	References:
1	Depreciation Expense Revised Surrebuttal Schedule JMM-WW9
2	Property Taxes Revised Surrebuttal Schedule JMM-WW10

OPERATING EXPENSE ADJUSTMENT NO. 1 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	\$ 55,610	\$ (10,585)	\$ 45,025

ACCT	NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES Total Plant Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D. 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 5 FULL YR	A.D. 12/31/2005
2	351	Organization	-	-	-	-	-	-	-	-	-
3	352	Franchises	-	-	-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	345	518
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	-	-
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Treatment and Disposal Equipment	890,485	5.00%	22,262	22,262	-	-	890,485	44,524	66,786
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-	-	-	-	-	-	-	-	-
26			1,379,092	-	26,654	26,654	-	-	1,379,092	53,308	79,962

Composite Rate: 4.1840%

Depreciable Plant: 1,274,092

Depreciation Expense Calculation:  
Depreciation 2005: 53,308  
Net Amortization of CIAC: 8,283  
Depreciation Expense: 45,025

References:  
Column A: Company Rebuttal Schedule B-1, Page 1  
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW8  
Column C: Column [A] + Column [B]

OPERATING EXPENSE ADJUSTMENT NO. 2 - PROPERTY TAX

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	\$ 5,123	\$ 1,475	\$ 6,598
	<u>Staff's Calculation of Property Tax</u>			
2	Staff Adjusted Test Year Revenues - 2005			\$ 113,905
3	Weight Factor			2
4	Subtotal (Line 1 * Line 2)			227,810
5	Staff Recommended Revenue, Per Schedule JMM-WW1			235,454
6	Subtotal (Line 4 + Line 5)			463,264
7	Number of Years			3
8	Three Year Average (Line 5 / Line 6)			154,421
9	Department of Revenue Multiplier			2
10	Revenue Base Value (Line 7 * Line 8)			308,843
11	Plus: 10% of CWIP - 2002			-
12	Less: Net Book Value of Licensed Vehicles			-
13	Full Cash Value (Line 9 + Line 10 - Line 11)			308,843
14	Assessment Ratio			23.50%
15	Assessment Value (Line 12 * Line 13)			72,578
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)			9.0903%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)			\$ 6,598
18	Company Proposed Property Tax			5,123
19	Increase/(Decrease) to Property Tax Expense			\$ 1,475

References:

Column A: Company Rebuttal Schedule B-1, Page 1  
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW8  
Column C: Column [A] + Column [B]



## RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Rate per 1,000 gal. water usage			
Residential	\$ 2.73	\$ 6.85	\$ 5.84
Car washes, Laundromats, commercial, manufacturing	2.67	6.70	5.71
Hotels and Motels	3.58	8.99	7.66
Restaurants	4.42	11.09	9.46
Industrial Laundries	3.92	9.84	8.39
Waste Haulers	80.00	200.80	171.20
Restaurant Grease	70.00	175.70	149.80
Treatment Plant Sludge	80.00	200.80	171.20
Mud Sump Waste	250.00	627.50	535.00
Service Charges			
Establishment	\$ 20.00	\$ 20.00	\$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Services	50.00	50.00	50.00
Reconnection (Delinquent and After Hours)	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interest	3.00%	3.00%	Per Rule
Charges for NSF Check	20.00	20.00	20.00
Deferred Payment Finance Charge	1.50%	1.50%	***
Late Payment, Per Month	***	***	***
Service Calls, per hour (After hours only)	40.00	40.00	40.00
Service Lateral Connection Charge:			
Residential	500.00	500.00	500.00
Commercial	Cost	Cost	Cost
Main Extension Tariff	Cost	Cost	Cost

- \* Per Commission Rule R14-2-603(D)
- \*\* Per Commission Rule R14-2-603(B)
- \*\*\* Per Commission Rule R14-2-608(F)

**Typical Bill Analysis**  
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	\$ 12.94	\$ 32.47	\$ 19.53	150.92%
Median Usage	4,500	12.29	30.83	\$ 18.54	150.92%

**Staff Recommended**

Average Usage	4,740	\$ 12.94	\$ 27.69	\$ 14.75	114.00%
Median Usage	4,500	12.29	26.29	\$ 14.00	114.00%

**Present & Proposed Rates (Without Taxes)**  
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ -	\$ -	-	\$ -	-
1,000	2.73	6.85	150.92%	5.84	114.00%
2,000	5.46	13.70	150.92%	11.68	114.00%
3,000	8.19	20.55	150.92%	17.53	114.00%
4,000	10.92	27.40	150.92%	23.37	114.00%
5,000	13.65	34.25	150.92%	29.21	114.00%
6,000	16.38	41.10	150.92%	35.05	114.00%
7,000	19.11	47.95	150.92%	40.90	114.00%
8,000	21.84	54.80	150.92%	46.74	114.00%
9,000	24.57	61.65	150.92%	52.58	114.00%
10,000	27.30	68.50	150.92%	58.42	114.00%
11,000	30.03	75.35	150.92%	64.26	114.00%
12,000	32.76	82.20	150.92%	70.11	114.00%
13,000	35.49	89.05	150.92%	75.95	114.00%
14,000	38.22	95.90	150.92%	81.79	114.00%
15,000	40.95	102.75	150.92%	87.63	114.00%
16,000	43.68	109.60	150.92%	93.48	114.00%
17,000	46.41	116.45	150.92%	99.32	114.00%
18,000	49.14	123.30	150.92%	105.16	114.00%
19,000	51.87	130.15	150.92%	111.00	114.00%
20,000	54.60	137.00	150.92%	116.84	114.00%
25,000	68.25	171.25	150.92%	146.06	114.00%
30,000	81.90	205.50	150.92%	175.27	114.00%
35,000	95.55	239.75	150.92%	204.48	114.00%
40,000	109.20	274.00	150.92%	233.69	114.00%
45,000	122.85	308.25	150.92%	262.90	114.00%
50,000	136.50	342.50	150.92%	292.11	114.00%
75,000	204.75	513.75	150.92%	438.17	114.00%
100,000	273.00	685.00	150.92%	584.22	114.00%